



# ***Session 25***

## **Managing the Risk of Default**

Sybil Phillips

Ben Leborys

Mark Walsh

# Agenda



**Portfolio Risk Management  
Title IV Programs**



**Default Prevention:  
The Basics and Beyond**



**Why is LSDA Working?**



**Questions**

# **Portfolio Risk Management Title IV Programs**

Sybil Phillips

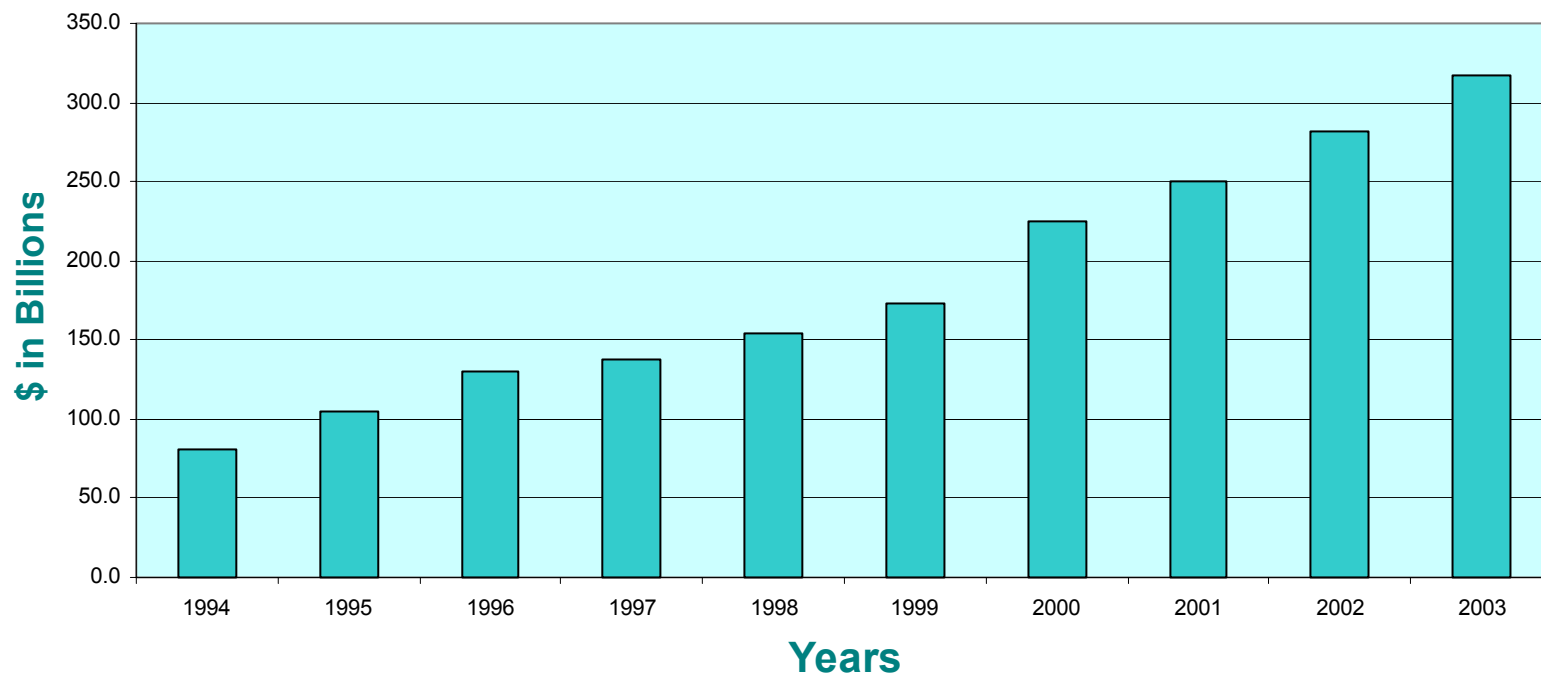
Director, Portfolio Risk Management  
FSA/Department of Education



# Why is Risk Management Important?

- As of 9/30/03 the Department of Education owns or guarantees approximately \$319 billion in outstanding student loans.
- In the past five years we have experienced a growth of 65% in total new federal aid.
- There are approximately 23 million borrowers with student loans.
- Approximately 9% of the total outstanding principal balance is in default.

## Growth of Title IV Programs





# What is Portfolio Risk Management?

- Risk Management is the continuous management of reducing exposure of loss from non-performing loans.
  - ✓ Manages through the life of the loan
  - ✓ Prevents a “scatter gun” approach to managing the portfolio, which leads to managing on demand
  - ✓ A focused vision and concentrated effort to managing default prevention and reducing the cost to the taxpayer

# A Focused Vision

- Created a Portfolio Risk Management Group to focus on the risk associated with the Title IV Programs
  - ✓ Responsible for supporting the management and performance evaluation of federally guaranteed loan programs and Pell grants.
  - ✓ Identify and analyze risk exposure for Title IV Programs
  - ✓ Work with schools, lenders, and guaranty agencies to insure that the Title IV Programs continue to reduce risk of default



# A Focused Vision

- The Group is comprised of individuals that bring over 80 years of varied experience levels that complements the needs of the Group:
  - ✓ Risk mitigation experience with the public and private sectors
  - ✓ Expertise in data mining
  - ✓ Significant program knowledge (FFEL, DL, Perkins and Campus Based)
  - ✓ Development and implementation of risk predictability models





# **A Focused Vision**

- Transform data into information
  - ✓ Analyze borrower behavior
  - ✓ Identify significant patterns and trends of a delinquent borrower
  - ✓ Identify risk parameters
- Recommend tools that may reduce delinquency and avoid default
  - ✓ Repayment options tailored to the borrower
  - ✓ Expand eServices for loan programs which provide increased service opportunities to the borrower
  - ✓ Increased focus on due diligence to include risk factors of the borrower, large \$ balances, # of days delinquent



# Summary

- Portfolio Risk Management is a commitment by FSA/Department of Education to focus on reducing risk of a portfolio in excess of \$319 billion.
- Increased focus on default prevention rather than the previous focus of “default collector”.
- Coordination of efforts within FSA as well as partnerships with schools and the FFEL community are critical to the success of reducing risk.
- As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.

# **Default Prevention: The Basics and Beyond**

Mark C. Walsh

Regional Lead, School Relations Branch  
FSA/Department of Education

# **Understanding the Basics**

- Cohort Default Rates
- Data Accuracy
- Default Management Plans
- Default Management Teams
- Establishing Goals



# **Cohort Default Rate (CDR)**

## **Definition:**

*A cohort default rate is the percentage of borrowers entering repayment on loans in a fiscal year and subsequently defaulting (or meeting other conditions) in that same fiscal year or the next fiscal year.*



# **What is a Cohort Year?**

## **FY 2003**

**(N) October 1, 2002 – September 30, 2004**

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**(D) October 1, 2002- September 30, 2003**

## **FY 2004**

**(N) October 1, 2003 – September 30, 2005**

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**(D) October 1, 2003 – September 30, 2004**



# Electronic Cohort Default Rates - eCDR

- Draft and Official CDRs now delivered via SAIG to domestic schools – no more hard copy notification packages
- Enroll or change who is designated to receive your school's cohort default rate info at [www.sfawebenroll.ed.gov](http://www.sfawebenroll.ed.gov)



# Draft CDR

- Usually released in February of each year
- Not public
- No sanctions
- All schools may challenge





# Official CDR

- Usually released in September of each year
- Public
- Sanctions apply
- Limited adjustment or appeal rights available



# 2002 “Draft” Cohort Default Rates

- Released February 17, 2004
  - Domestic schools received their draft rates electronically via their SAIG mailbox.
  - Foreign schools received their draft rates via the U.S. Postal Service.
- If you have any questions, please send an email to: [fsa.schools.default.management@ed.gov](mailto:fsa.schools.default.management@ed.gov) or call the Default Management hotline at (202) 377-4259.



# 2002 “Draft” Cohort Default Rates

- April 7 = postmark date for submission of inaccurate data challenges
- Can't make the deadline? Clean up the data anyway and still affect your official CDR
- Help can be found in the CDR Guide, Chapter 4.1



# Default Prevention Myth

My school has a very low rate, so we do not need to do anything on Default Prevention.

Three reasons why you should:

- Low rate + high volume = Big Dollars!
- Customer service
- Taxpayer



# Default Prevention Plan

- Success is achieved when solid plans are developed and executed
- Plan pulls together people and resources toward a common goal
- ED Default Management sample plan in Dear Colleague Letter GEN-01-08 issued June 2001
- Revise the plan as needed



# Set Default Reduction Goals

Use FSA's Unique School Report

- How does your CDR compare with:
  - National Cohort Default Rate?
  - Schools of the same size and type?
  - Schools in the same ED Region?
  - Schools in your state?
  - Your previous CDR?



# Default Prevention Team

- Team members should include
  - senior school official
  - representative from key offices
  - student representative
- Meet regularly
- Evaluate progress
- Celebrate and promote your successes

# **Beyond the Basics**

- FSA Resources
- National Default Prevention Listserv
- NSLDS and Default Prevention
- Contact with borrowers
- Borrower education





# FSA Resources

- The Cohort Default Rate Guide

<http://www.ifap.ed.gov/drmaterials/finalcdrg.html>

- FSA Assessments

<http://ifap.ed.gov/qamodule/DefaultManagement/DefaultManagement.html>



# **The National Default Prevention Listserv**

- Created October 30, 2003
- Hosted by Rutgers University
- Forum for all participants involved in financial aid to exchange ideas
- Regular postings by FSA



# **The National Default Prevention Listserv**

To subscribe send a message to:

[LISTSERV@EMAIL.RUTGERS.EDU](mailto:LISTSERV@EMAIL.RUTGERS.EDU)

with the following command in the body:

SUBSCRIBE

DEFAULT\_PREVENTION@EMAIL.RUTGERS.EDU

Your Name

# NSLDS Reports



Menu

Aid

Enroll

Org

Report

Tran

Support



Report List

Logged on as: JIM NEILL from [Department of Education Region 0](#)

## Report List

Search Report ID:

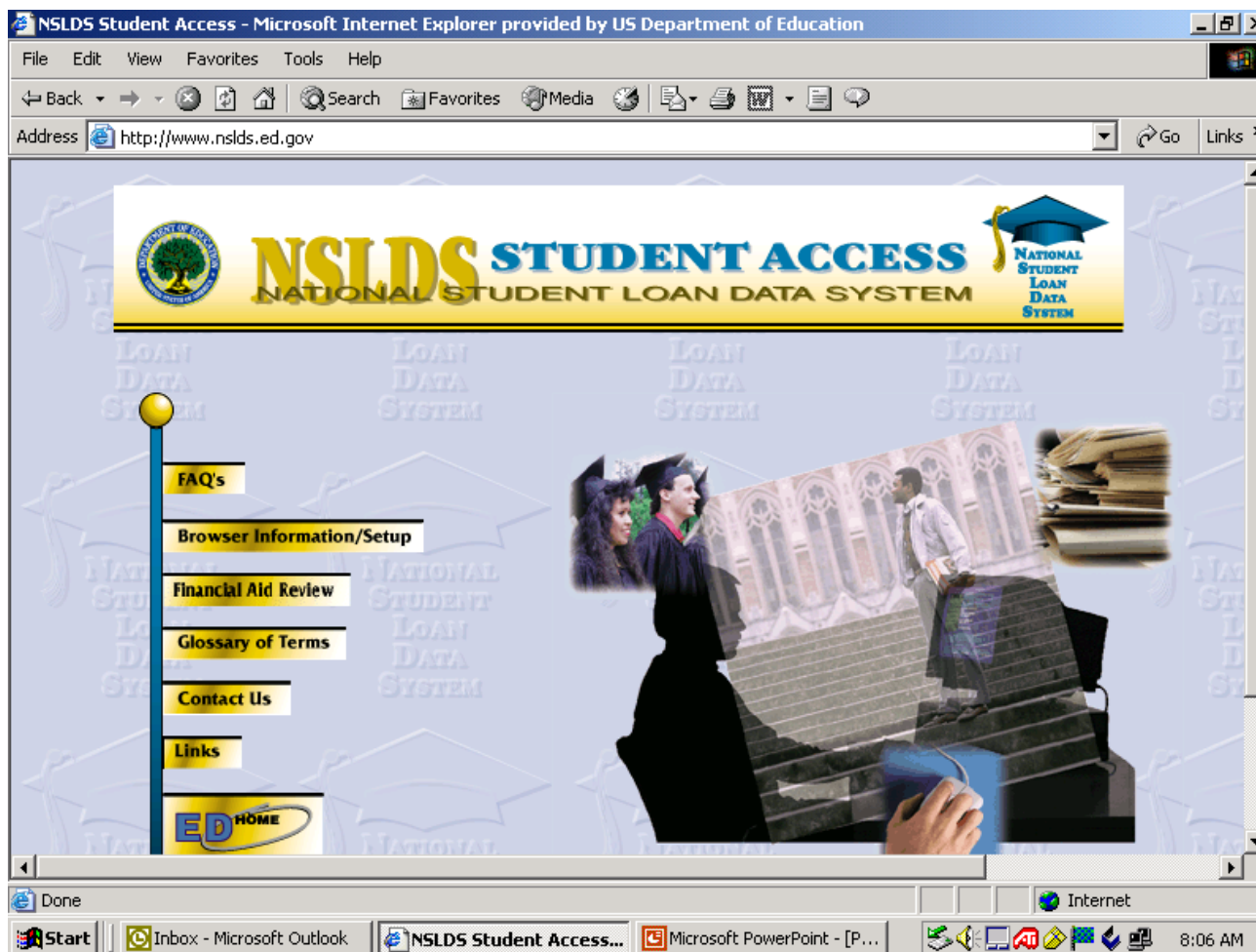
Submit

	Report ID	Names	Log Page
1	DER001	DATE ENTERED REPAYMENT REPORT	
2	DRC015	SCHOOL REPAYMENT INFO LOAN DETAIL	
3	DRC035	SCHOOL COHORT DEFAULT RATE HIST RPT	
4	FAT001	REQUEST FOR FINANCIAL AID HISTORY	
5	OVP001	SCHOOL OVERPAYMENT REPORT	
6	SCHDF1	BORROWER DEFAULT SUMMARY REPORT	
7	SCHER1	ENROLLMENT REPORTING SUMMARY REPORT	
8	SCH01A	EXIT COUNSELING BY SSN	
9	SCH01B	EXIT COUNSELING	
10	SCH07B	TRANSFER MONITORING SUMMARY REPORT	



**Date Entered  
Repayment  
Report**

# NSLDS for Students





# NSLDS for Students

- Loan information for students and parents is available 24/7:
  - Date of loan
  - How much they borrowed
  - Loan balance
  - Interest rate and amount accumulated
  - Loan status codes (in repayment, paid in full, or in default)



# Contact With Borrowers

- Communicate while in school
- Pursue those who leave without notice
- Communicate during their grace period
  - Let students keep their e-mail for 2 years
- Identify and contact delinquent borrowers



# Borrower Education

- Lenders and Guarantors
- Jump\$tart Coalition For Personal Financial Literacy  
<http://www.jumpstart.org/>
- Mapping Your Future  
<http://www.mapping-your-future.org>
- Local Credit Counseling Resources



# **Why Is LSDA Working?**

Ben LeBorys  
Quality Management  
Borrower Services

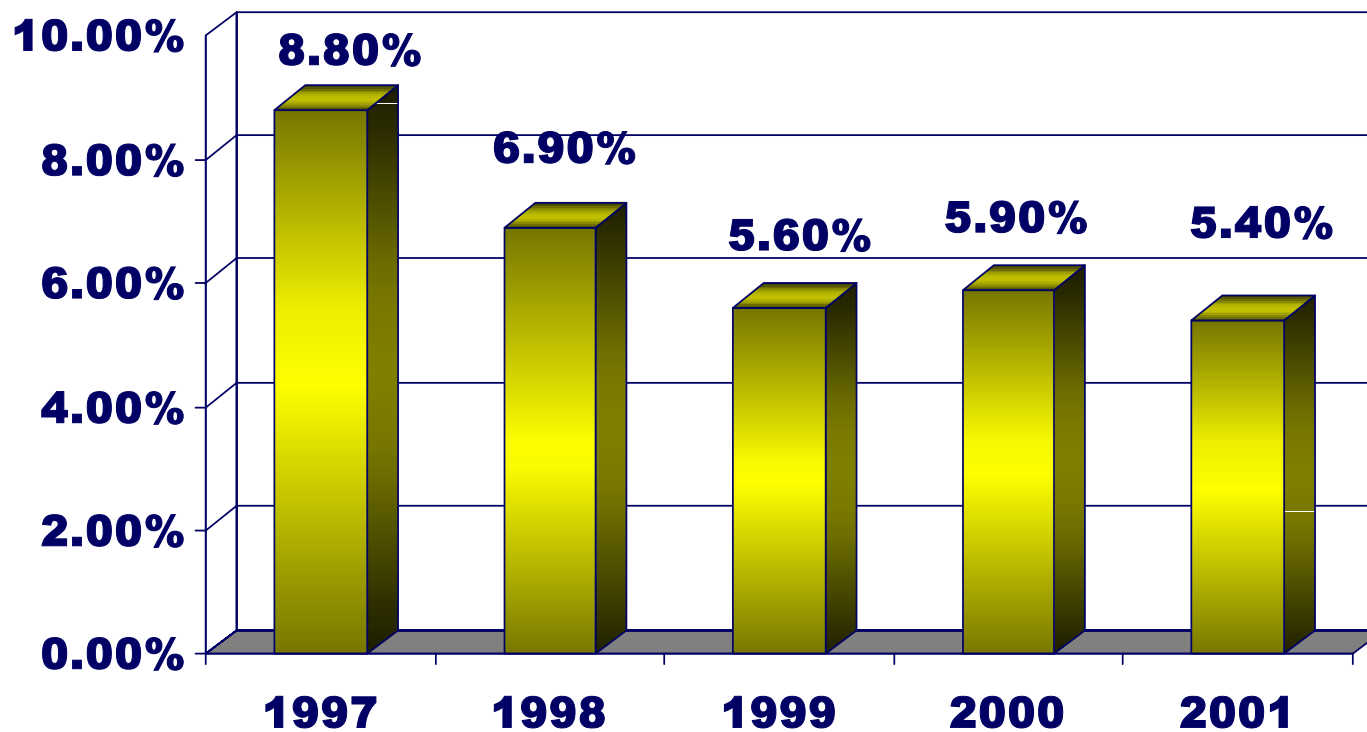
# **Why is LSDA Working ?**

## **L**ate **S**tage **D**elinquency **A**ssistance

- Schools feel it is the right thing to do.
- Schools feel that it is very doable.
- Students respond well to schools.

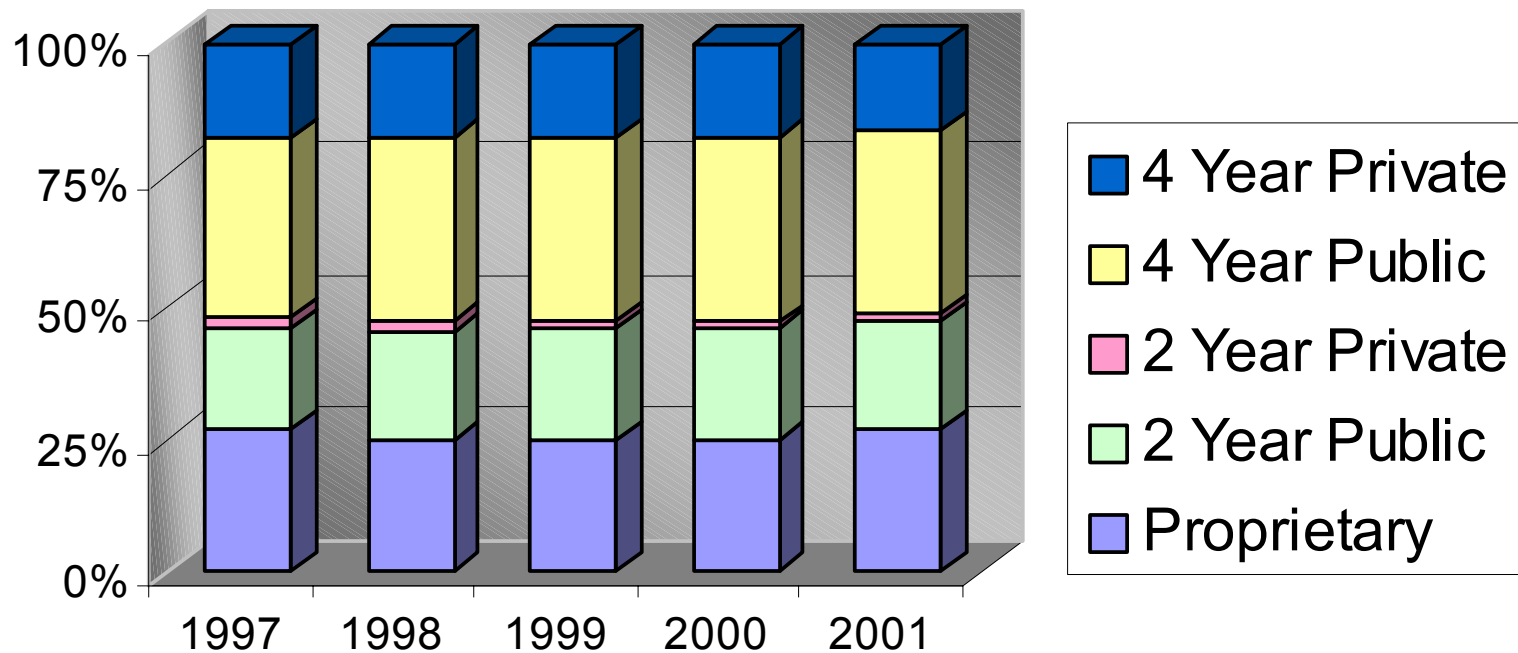


# Official Cohort Default Rates

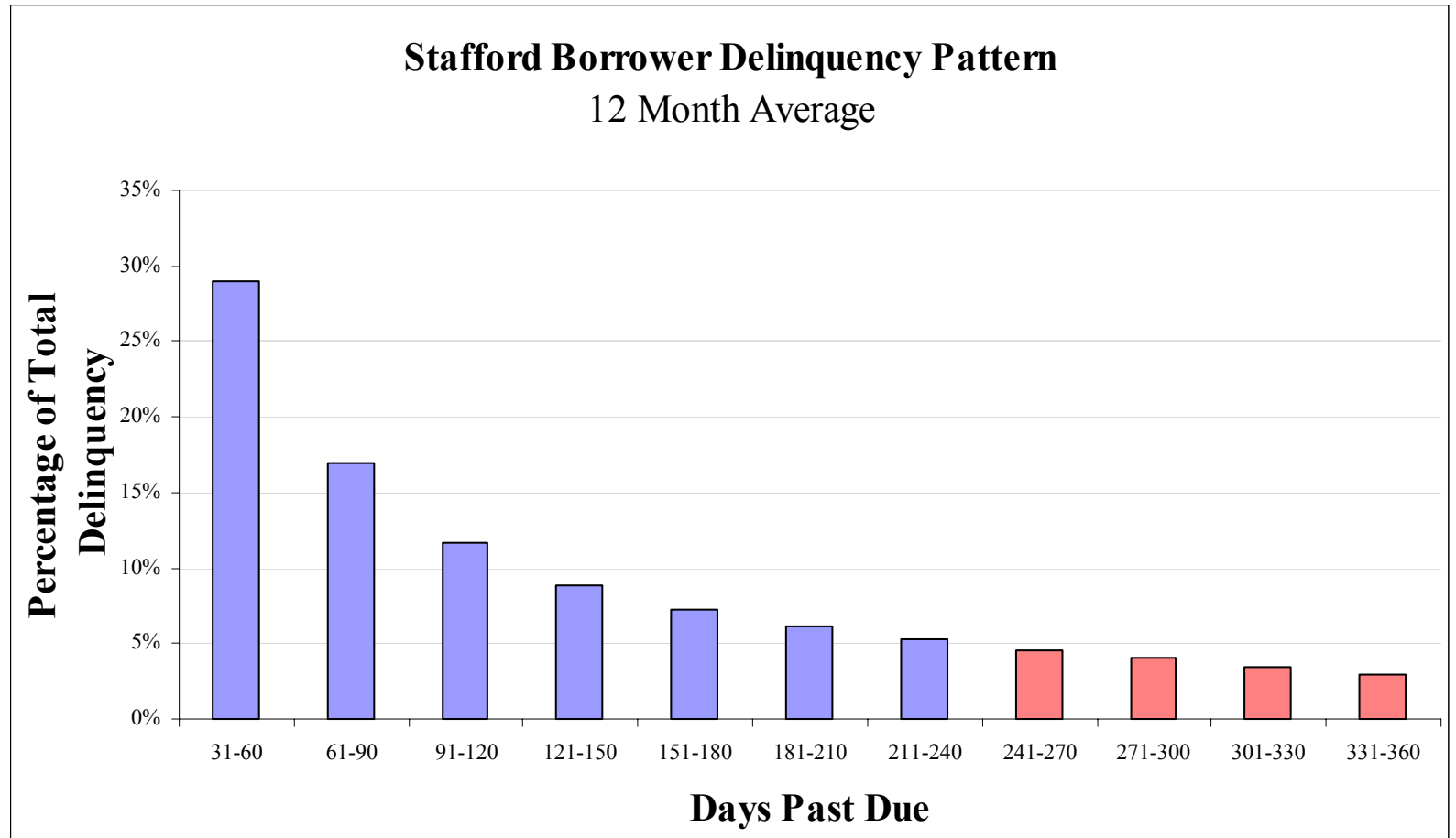


# Makeup of Cohort Rate

Cohort Default Contribution by  
School Type



# Borrower Delinquency Pattern





# Defaulter Characteristics

- 83% do not receive the advantage of the full 6 month grace period as a result of late enrollment notification
- 72% have withdrawn from school and did not complete studies
- 42% have had bad telephone numbers at the time of default
- 60% have not successfully been contacted by telephone during the 360 day collection effort during delinquency

*12 month average of Stafford borrowers - all cohort years*

# Effective Implementation

Plan

Schedule

Tips from others

Make it someone's responsibility





# The Tools

- Direct Loan Web Site gives you the flexibility to identify the borrower population you want to work.
- The Direct Loan Servicing Center is available to assist .They can provide the LSDA users guide and tips. They will also assist you while on a call with a delinquent borrower.
  - School Services: 1-888-877-7658  
M-F 8:00 a.m. - 8:30 p.m. EST.
  - Loan Counseling : 1-800-848-0981  
Available for “off hours” M-F 8:30 p.m. - 10:00 p.m.  
& Sat. 8:00 a.m. - 5:30 p.m. EST.





# With the Web Site you can see as little or as much as you want

[Home](#) | [Direct Loan Servicing Resources](#) | [Student Account Info](#) | [School Reports](#) | [Versión en español](#) | [Logout](#)

 **FEDERAL STUDENT AID**

**DIRECT LOAN SERVICING'S ONLINE SCHOOL SITE**

[Entrance Counseling](#) | [Exit Counseling](#) | [Delinquency Reports](#) | [Portfolio Reports](#) | [Report Subscription](#) | [Help with this Report](#)

School Campus code: GXXXXX

## Delinquency Reports

### Borrower History Report

The Borrower History Report displays the history of delinquency for selected borrower(s).

### Detail Report

The Detail Delinquency Report contains a list of students that attended your institution with Direct Loans from the Department of Education that are currently in Delinquent Status.

**New!**

### Late Stage Delinquency Assistance (LSDA) Report

The Late Stage Delinquency Assistance (LSDA) report contains a list of students that attended your institution with Direct Loans and are currently 241-360 days delinquent, which can affect your school's cohort default rate.

### Summary Report

The Summary Report provides a count of the Stafford and In-School Consolidation borrowers delinquent at the end of the month for the selected Reporting Period(s).

*If you have a question regarding the information presented on this page, please [Email Us](#)*

| [SFA School Portal](#) | [Web Site Help](#) | [General Information](#) | [Contact Us](#) |


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**NEW!**

## Late Stage Delinquency Assistance (LSDA) Report

The Late Stage Delinquency Assistance Report provides the most recent report of borrowers from your institution that are between 241 and 360 days delinquent and that can affect your cohort default rate.

<a href="#">Home</a>   <a href="#">Direct Loan Servicing Resources</a>   <a href="#">Student Account Info</a>   <a href="#">School Reports</a>   <a href="#">Versión en español</a>   <a href="#">Logout</a>								
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<a href="#">Entrance Counseling</a>   <a href="#">Exit Counseling</a>   <b><a href="#">Delinquency Reports</a></b>   <a href="#">Portfolio Reports</a>   <a href="#">Report Subscription</a>   <a href="#">Help with this Report</a>								
School Campus code: GXXXXX								
<b>Delinquency Reports</b>								
<b>Late Stage Delinquency Assistance (LSDA) Report</b>								
<a href="#">More Information</a> <span style="float: right;">Last update: 11/25/2003 3:24:58 PM</span>								
Page 1 of 4    << 1 2 3 4 >>    Rows: 1 - 50 of 153   Columns: 2								
Reporting Period ▲	Social Security Number ▲	Borrower Name ▲	Home Address ▲	Phone Numbers ▲	Cohort Default Year ▲	Separation Date ▲	▼ Days Delinquent	▼ Original Loan Amount
October 2003	222-11-1111	STUDENT, SAMANTHA S	123 MAIN STREET BOLT, CA 56789	W - Unknown H (555) 123-1234	2003	05/05/2002	344	\$ 2,625.00
October 2003	001-11-1111	SESSION, SUSAN S	333 NEW HAMPSHIRE RENO, NV 23456	W - Unknown H - Unknown	2003	05/05/2002	344	\$ 9,625.00
October 2003	222-22-2222	FRESHMAN, FRANK F	99 CALIFORNIA ST CAPITAL, MD 34567	W - Unknown H - Unknown	2003	05/05/2002	344	\$ 2,625.00
October 2003	001-22-2222	PARENT, PATRICIA P	333 CENTRAL DR FRESNO, CA 33333	W - Unknown H (555)-123-1234	2003	05/05/2002	344	\$ 3,500.00
October 2003	222-33-3333	AMERICA, ALEXANDER A	456 NEW YORK AVE CITY, UT 56789	W - Unknown H - Unknown	2003	08/08/2002	251	\$ 5,154.00
October 2003	001-33-3333	COUNSELOR, CARY C	888 MODEL LN SPRINGFIELD, MA 55555	W - Unknown H - Unknown	2003	08/08/2002	251	\$ 58,500.00
October 2003	222-44-4444	COLLEGE, CANDACE C	123 MAIN ST SMALLVILLE, OH 23456	W - Unknown H - Unknown	2003	08/08/2002	251	\$ 7,997.00

# LSDA Works for All Schools

SCHOOL	Total	Defaults	Percent Default	Rescued	Percent Rescued
Technical Institute	2	0	0%	2	100%
Institute of Technology	25	9	36%	16	64%
College	10	4	40%	6	60%
University	41	20	49%	21	51%
Memorial College	21	11	52%	10	48%
College	23	13	57%	10	43%
State University	32	19	59%	13	41%
State University	50	30	60%	20	40%
College	36	23	64%	13	36%
College	23	15	65%	8	35%
State University	66	44	67%	22	33%
College of Business	15	10	67%	5	33%
University	23	16	70%	7	30%
University	11	8	73%	3	27%
University	9	7	78%	2	22%
<b>TOTAL</b>	<b>387</b>	<b>229</b>	<b>59%</b>	<b>158</b>	<b>41%</b>

# Sample LSDA Results

	Total Late Stage Borrowers	Number Rescued	Percent Rescued
1st Sample	683	218	32%
2nd Sample	387	158	41%
Total	1070	376	35%

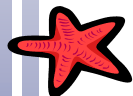
- Hundreds of delinquencies resolved immediately through three way calls with DL Servicing
- Over 500 schools have indicated desire to work with LSDA
- Downward trend in DL Program Cohort Default Rate

# Testimonials



- *"I just wanted to drop you a note of thanks and appreciation for your help with my direct student loan. It had become a sore issue that I found difficult to face, being that I had no answers regarding payment. I was not aware of deferment options regarding unemployment, just those associated with schooling. Thanks again for your help and persistence."*

**~Student**



- *"I'm glad you cared enough to contact me and not give up on me when I had just about given up on myself."*

**~ Student**



- *"Borrowers are grateful that someone is willing to work with them and help them get through the critical point. A lot of the borrowers do not realize the seriousness of defaulting and the options that are available."*

**~Margaret Pearson, San Antonio College/Career Centers**





# Tips for Success

- Use a light touch – remember you are there to help, not to collect.
- Call at different times of the day – more people are home in the evening and you can call from home using a calling card.
- Mailing handwritten notes has been successful.
- Use contact information from the Web, student Email addresses, Perkins Loan info, Registrar's Office, Alumni Office, etc.
- Send out information on repayment options, deferments and forbearance.
- Connect the student with the Service Center in a three-way call.
- Be creative! You can make a difference.



# What is Next ?

**Early** Stage Delinquency Prevention  
Something to think about!

- Report student separations timely
- Consider outreach to dropouts
- Council potential dropouts earlier in the process





# Questions and Comments



## Contact Us:

- ▶ [Sybil.Phillips@ed.gov](mailto:Sybil.Phillips@ed.gov)  
Portfolio Risk Management  
(202) 377-3206
- ▶ [Mark.Walsh@ed.gov](mailto:Mark.Walsh@ed.gov)  
School Relations Branch  
(816) 268-0412
- ▶ [Ben.Leborys@ed.gov](mailto:Ben.Leborys@ed.gov)  
Quality Management  
Borrowers Services  
(202) 377-3271